



MIAMI BEACH

OFFICE OF THE CITY MANAGER

NO. LTC # 163-2006

LETTER TO COMMISSION

TO: Mayor David Dermer and Members of the City Commission

FROM: Jorge M. Gonzalez, City Manager

For JMG [Signature]

DATE: June 21, 2006

SUBJECT: Miami-Dade County Wholesale Water and Sewer Rates

Background

On August 23, 2005, two weeks before the City's first budget hearing, the City Administration received notice from Miami-Dade County of a proposed increase to the wholesale water and sewer rates charged to municipalities. As such the City had very little time to fully evaluate the proposed rate increases, and impact of approximately \$5.25 million to the City of Miami Beach. Staff met with Miami-Dade County Water and Sewer Department (WASD) on September 14, 2005 and was provided supplemental information concerning the proposed rate increases. WASD's justification for the increase in wholesale rates included:

- o Increases in operating costs over the last three years and decreases in water consumption absorbed by spending down their reserves.
- o WASD's Financial Advisor (The PFM Group), developed a six-year operating pro-forma projection dramatically different from those provided to the rating agencies in 2003 with the opinion that a system rate increase was needed to avoid a credit rating down grade.
- o Increased needs in the Renewal and Replacement fund to correct deficiencies identified in a Renewal and Replacement Needs Assessment completed in April 2005.

The City had several concerns regarding the need for the proposed rate increase including: appropriation of only \$32 million of the approved G.O. Bond Program authorized \$222 million for Countywide water and sewer projects to WASD for system wide improvements; concerns regarding unspent bond proceeds; continued inclusion of the \$23 million equity transfer to the County in WASD's FY 2005/06 Operating Budget; the methodology used to determine the \$65 million in annual renewal and replacement needs; windfall revenues that would result to the County Department of Environmental Resource Management (DERM) without any justification simply because the City per County code is required to pay DERM a 7.5 percent fee of all water and sewer revenues collected.

In response to the concerns expressed by Miami Beach and other municipalities, Miami-Dade Board of County Commissioners (BCC) approved the proposed rate increase effective January 2006 and provided a payment plan recapture of the revenues lost due to the delayed implementation over 36 months beginning October 1, 2006. The BCC further directed the County administration to clarify and confirm the revised wholesale water and sewer charges with municipalities receiving wholesale service and report back to the Commission in January 2006.

Miami-Dade County staff held meetings with municipal wholesale customers in November and December 2005 and proposed a lower rate increase than had been approved by the BCC based on additional analysis performed by WASD, its Bond Consultant Engineers and the County's Office of Strategic Business Management. The approved and recommended revised wholesale rates per thousand gallons were as follows:

	<u>FY 04/05 Rate</u>	<u>Increase Approved</u> <u>September 2005</u>	<u>Proposed Increase</u> <u>November 2005</u>
Wholesale Water	\$1.70	\$1.19	\$1.10
Wholesale Sewer – Wet Season	\$1.90	\$2.18	\$1.95
Wholesale Sewer – Dry Season	\$1.50	\$1.78	\$1.52

Preliminary estimates for wholesale rates for FY 2006/07 for water and sewer wet and dry season were also provided in the amounts of \$1.13, \$1.98, and \$1.54, respectively.

Given that the charges are based solely on a change in the rate model utilized, wholesale municipal customers, including Miami Beach, remained concerned regarding the validity of the proposed rates. In addition the municipal customers felt strongly that rate increases should be "smoothed" over several years as well as subject to an annual cap. As a result of ongoing discussions, County staff agreed to the following, subject to Miami-Dade County BCC approval:

- o Reduce the proposed rate increase for FY 2005/06 to the rates proposed in November;
- o Defer the payment requirement for the amount of the fee increase owed from January 2006 through September 2006 until September 2007, allowing time for completion of studies by an independent consultant including the allocation methodology, the FY 2005/06 rates, proposed rates for FY 2006/07, and future rates, including the development of a rate stabilization methodology;
- o Continue to allow the wholesale municipal customers a payment plan recapture of the revenues lost due to the 3-month delayed implementation over 36 months;
- o At the end of each fiscal year, conduct an analysis to determine the actual cost of providing these services and rates for the following year will be adjusted to "true-up" for any differential between budgeted expense and actual expense;
- o Involve municipal representatives in the review of the rate study by the consultant.

Status

The lower rate increase and deferred payment through September 2007 were approved by Miami-Dade County BCC on March 21, 2006 with the understanding that final rates, for FY 2005/06, FY 2006/07 and projected future rates, would be determined by an independent rate consultant. However, rather than hire one consultant to review the methodology for determining wholesale rates on a multi-year basis (including the allocation methodology, the FY 2005/06 rates, proposed rates for FY 2006/07, and future rates) the County unilaterally elected to split the project into 2 phases, and use an existing pool of pre-qualified firms (the County's Management Advisory Consulting Financial Category Pool of Pre-Qualified Firms) to review the FY 2005/06 wholesale rates and the proposed rates for FY 2006/07 rather than advertise widely.

On May 4, 2006 the selection committee, which included representatives from Miami Beach and Hialeah along with representatives from Miami Dade County, met to review the proposals for a consultant to review the wholesale water and sewers rates for the FY 2006/07 fiscal year. However, only one consultant submitted a proposal Milian, Swain and Associates, Inc –(Milian). Miami-Dade County advised that they had limited the advertisement in an effort to expedite the process. Both representatives from Miami Beach and Hialeah felt that their efforts were extremely limiting but due to the time constraints felt comfortable with moving ahead with Milian. Milian will be charged with reviewing the MDWAS rate model and what Miami-Dade County calls "smoothing" mechanism, which is another mathematical model use to flatten rates and avoid the extremely high peaks as experienced with last year's recommendations. There was another area of concern discussed by committee members regarding Milian, as Milian developed the current rate model that produced one set of the rates last year. It was agreed that municipalities maintained the right to object if not in agreement with a final recommendation.

Miami Dade County committed to having the rate study for FY2005/06 and 2006/07 completed no later than June 2006 in time for the municipalities and the county to meet their respective budget preparation schedules, and the committee to review the progress of Milian's work prior to a final recommendation. Further, they agreed to send a letter to all wholesale customers explaining the status of the process.

The recently released Miami-Dade County Manger's proposed budget for FY 2006/07 reflects additional wholesale water and sewer rate increases of \$0.04 per thousand gallons for wholesale customers, but caveats that these are being reviewed with the independent consultant.

Of continued concern is the fact that Miami Dade County has not started the process of selecting a consultant for the wholesale and retail rate study beyond the FY 2006/07 as promised by the county to the municipalities. Therefore, it appears at this time that they will not be ready for rate recommendations for the FY 2007/08 fiscal year and beyond, making it almost impossible for municipalities to complete their planning efforts with any degree of accuracy.

Although the proposed rate increase for FY 2005/06 has already been reduced by approximately half, we continue to work diligently on this issue. Any final amounts for FY 2005/06 as well as FY 2006/07 will need to be addressed in the FY 2006/07 Proposed Operating Budget.

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